

**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
NICHOLAS COUNTY FISCAL COURT**

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Nicholas County Fiscal Court for the fiscal year ended June 30, 2009.

The financial statements of the Nicholas County Senior Citizens Center, a discretely presented component unit, have been audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nicholas County Senior Citizens Center, is based on the report of the other auditors.

We have issued unqualified opinions, based on our audit and the reports of the other auditors, on the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Nicholas County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$5,700,231 as of June 30, 2009. The fiscal court had unrestricted net assets of \$974,151 in its governmental funds as of June 30, 2009. The fiscal court's discretely presented component unit had net assets of \$19,973 as of June 30, 2009. The discretely presented component unit had net cash and cash equivalents of \$20,059. The fiscal court had total debt principal as of June 30, 2009 of \$212,197 with \$37,732 due within the next year.

Report Comments:

2009-01 The County's Annual Financial Statement Does Not Meet Statutory Requirements
2009-02 The County Did Not Prepare An Accurate And Complete Fourth Quarter Financial Statement
2009-03 Nicholas County Lacked Adequate Segregation Of Duties Over Cash And Receipt Functions
2009-04 Nicholas County Lacked Adequate Segregation Of Duties Over The Payroll Function

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Larry Tinch, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Nicholas County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Nicholas County Senior Citizens Center, a discretely presented component unit, which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nicholas County Senior Citizens Center, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Nicholas County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Nicholas County, Kentucky, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison schedules are not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nicholas County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2010 on our consideration of Nicholas County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The County's Annual Financial Statement Does Not Meet Statutory Requirements
- 2009-02 The County Did Not Prepare An Accurate And Complete Fourth Quarter Financial Statement
- 2009-03 Nicholas County Lacked Adequate Segregation Of Duties Over Cash And Receipt Functions
- 2009-04 Nicholas County Lacked Adequate Segregation Of Duties Over The Payroll Function

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 28, 2010

NICHOLAS COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Larry Tinch	County Judge/Executive
Daryl Stacy	Magistrate
Mike Webb	Magistrate
Steve Hamilton	Magistrate
Jeff Randolph	Magistrate
Avery Thornsburg	Magistrate

Other Elected Officials:

Dawn Letcher	County Attorney
Jeff Sidles	Jailer
Doug Fryman	County Clerk
Sandye Watkins	Circuit Court Clerk
Dick Garrett	Sheriff
Michelle McDonald	Property Valuation Administrator
Kevin Hatchett	Coroner

Appointed Personnel:

Wanda Dotson	County Treasurer
Dana Price	Occupational Tax Collector/Finance Officer

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NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Nicholas County Senior Citizens Center</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,028,993	\$ 17,346
Assets Held For Resale	102,859	
Investments	298,353	
Accounts Receivable		2,713
Total Current Assets	<u>1,430,205</u>	<u>20,059</u>
Noncurrent Assets:		
Capital Assets - Net of Accumulated Depreciation		
Construction In Progress	212,147	
Land	264,121	
Buildings	1,893,794	
Other Equipment	311,516	
Vehicles and Equipment	157,469	
Infrastructure Assets - Net of Depreciation	<u>1,643,176</u>	
Total Noncurrent Assets	<u>4,482,223</u>	
Total Assets	<u>5,912,428</u>	<u>20,059</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable		86
Financing Obligations	<u>37,732</u>	
Total Current Liabilities	<u>37,732</u>	<u>86</u>
Noncurrent Liabilities:		
Financing Obligations	<u>174,465</u>	
Total Noncurrent Liabilities	<u>174,465</u>	
Total Liabilities	<u>212,197</u>	<u>86</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,372,885	
Restricted For:		
Debt Service	9,742	
Permanent Trust	343,453	
Unrestricted	<u>974,151</u>	<u>19,973</u>
Total Net Assets	<u>\$ 5,700,231</u>	<u>\$ 19,973</u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,104,295	\$ 98,184	\$ 523,840	
Protection to Persons and Property	288,086	50,502	91,032	
General Health and Sanitation	96,495	44,441	13,982	
Social Services	144,156			
Recreation and Culture	61,059			
Roads	844,950	3,110	1,029,240	
Interest on Long-Term Debt	6,476			
Capital Projects				26,280
Total Governmental Activities	2,545,517	196,237	1,658,094	26,280
Component Unit:				
Nicholas County Senior Citizens Center	143,101		101,713	
Total Component Units	\$ 143,101	\$ 0	\$ 101,713	\$ 0

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Transfers From City/County

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental	Component	
Activities	Units	
\$	(482,271)	\$
	(146,552)	
	(38,072)	
	(144,156)	
	(61,059)	
	187,400	
	(6,476)	
	26,280	
	(664,906)	
	(41,388)	
	(41,388)	
	250,914	
	8,429	
	56,874	
	315,425	
	13,492	
	34,612	
	91,944	
	41,539	
	771,690	41,539
	106,784	151
	5,593,447	19,822
\$	5,700,231	\$ 19,973

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Phase I Tobacco Fund	Mathers Educational Fund	
ASSETS					
Cash and Cash Equivalents	\$ 439,671	\$ 35,698	\$ 304,688	\$ 182,724	
Investments					
Total Assets	<u>439,671</u>	<u>35,698</u>	<u>304,688</u>	<u>182,724</u>	.
FUND BALANCES					
Reserved for:					
Encumbrances	1,200	14,600			
Permanent Trust					
Unreserved:					
General Fund	438,471				
Special Revenue Funds		21,098	304,688	182,724	
Debt Service Fund					
Total Fund Balances	<u>\$ 439,671</u>	<u>\$ 35,698</u>	<u>\$ 304,688</u>	<u>\$ 182,724</u>	.

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Knox Hospital Trust Fund	Non- Major Funds	Total Governmental Funds
\$ 45,100	\$ 21,112	\$ 1,028,993
298,353		298,353
<u>343,453</u>	<u>21,112</u>	<u>1,327,346</u>
		15,800
343,453		343,453
		438,471
	11,370	519,880
	<u>9,742</u>	<u>9,742</u>
<u>\$ 343,453</u>	<u>\$ 21,112</u>	<u>\$ 1,327,346</u>

Reconciliation of the Balance Sheet - Governmental Funds - To the Statement of Net Assets:

Total Fund Balances	\$ 1,327,346
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	6,464,963
Accumulated Depreciation	(1,982,740)
Assets Held For Resale Are Not Financial Resources And Therefore Are Not Reported In The Funds	102,859
Long-term Debt Is Not Due and Payable In The Current Period and, Therefore, Is Not Reported In the Funds.	
Financing Obligations	<u>(212,197)</u>
Net Assets Of Governmental Activities	<u>\$ 5,700,231</u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Phase I Tobacco Fund	Mathers Educational Fund
REVENUES				
Taxes	\$ 631,617	\$	\$	\$
Excess Fees	13,492			
Licenses and Permits	7,238			
Intergovernmental	130,497	953,630	491,480	
Charges for Services	63,949	3,111		
Miscellaneous	41,338	90,230		
Interest	18,829	9,057	11,642	97,862
Total Revenues	<u>906,960</u>	<u>1,056,028</u>	<u>503,122</u>	<u>97,862</u>
EXPENDITURES				
General Government	426,479	18,000		
Protection to Persons and Property	147,620			
General Health and Sanitation	17,083			
Social Services	45,490			98,126
Recreation and Culture	57,500			
Roads		820,956		
Debt Service	33,122	107,215		
Administration	191,617	164,221	324,871	1,914
Total Expenditures	<u>918,911</u>	<u>1,110,392</u>	<u>324,871</u>	<u>100,040</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(11,951)</u>	<u>(54,364)</u>	<u>178,251</u>	<u>(2,178)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		102,859		
Transfers From Other Funds	112,486	7,717		
Transfers To Other Funds	(102,717)	(105,000)		
Total Other Financing Sources (Uses)	<u>9,769</u>	<u>5,576</u>		
Net Change in Fund Balances	(2,182)	(48,788)	178,251	(2,178)
Fund Balances - Beginning (Restated)	441,853	84,486	126,437	184,902
Fund Balances - Ending	<u>\$ 439,671</u>	<u>\$ 35,698</u>	<u>\$ 304,688</u>	<u>\$ 182,724</u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Knox Hospital Trust Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 631,617
		13,492
		7,238
	70,219	1,645,826
	56,153	123,213
	7,403	138,971
(46,055)	609	91,944
<u>(46,055)</u>	<u>134,384</u>	<u>2,652,301</u>
		444,479
	139,660	287,280
	71,478	88,561
		143,616
		57,500
		820,956
		140,337
3,009	18,560	704,192
<u>3,009</u>	<u>229,698</u>	<u>2,686,921</u>
<u>(49,064)</u>	<u>(95,314)</u>	<u>(34,620)</u>
		102,859
	95,000	215,203
(7,486)		(215,203)
<u>(7,486)</u>	<u>95,000</u>	<u>102,859</u>
(56,550)	(314)	68,239
400,003	21,426	1,259,107
<u>\$ 343,453</u>	<u>\$ 21,112</u>	<u>\$ 1,327,346</u>

The accompanying notes are an integral part of the financial statements.

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**NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$	68,239
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		239,418
Purchase Of Assets Held For Resale		102,859
Disposal Of Assets Held For Resale		(98,525)
Depreciation Expense		(232,129)
Net Effect Of Disposal Of Capital Assets		(4,080)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds		(102,859)
Financing Obligations Principal Payments		133,861

Change in Net Assets of Governmental Activities	\$	106,784
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NICHOLAS COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

NICHOLAS COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Mathers Educational Trust Fund</u>
Assets	
Cash and Cash Equivalents	\$ 329,138
Mutual Funds - Fixed Income	935,142
Mutual Funds - Equity	<u>804,263</u>
 Total Assets	 <u>2,068,543</u>
 Net Assets	
Held in trust for educational and other purposes	 <u><u>\$ 2,068,543</u></u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS –
FIDUCIARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS –
FIDUCIARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	<u>Mathers Educational Trust Fund</u>
Additions	
Dividends	\$ 81,513
Interest	1,156
Other	<u>2,355</u>
Total Additions	85,024
Deletions	
Commissions and Fees	13,295
Benefit Payments	90,539
Loss on Sale of Investments	<u>242,587</u>
Total Deletions	<u>346,421</u>
Change In Net Assets	(261,397)
Net Assets Held In Trust	
Total Net Assets - Beginning	<u>2,329,940</u>
Total Net Assets - Ending	<u><u>\$ 2,068,543</u></u>

The accompanying notes are an integral part of the financial statements

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TO THE FINANCIAL STATEMENTS**

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NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Nicholas County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Discretely Blended Component Unit

The component unit's column in the government-wide financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit (Continued)

Nicholas County Senior Citizens Center operates the Title III B, C, and Homecare Programs on behalf of the Nicholas County Fiscal Court. The Fiscal Court has contracted with the Bluegrass Area Development District to provide these programs. The Fiscal Court is responsible for appointing the Senior Citizens Center's Director. The Fiscal Court has the ability to significantly influence operations, select the governing authority, and participate in fiscal management and the scope of the public service of the Senior Citizens Center. The Senior Citizens Center is financially accountable to the Fiscal Court and cannot be named in any litigation without recourse to the Fiscal Court. This fiscal dependency requires the Fiscal Court to include the Senior Citizens Center as a component unit. The Senior Citizens Center is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Senior Citizens Center is presented discretely.

Audited financial statements for the Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program, a discretely presented component unit, may be requested by contacting the Nicholas County Senior Citizens Center, 124 East Main Street, Carlisle, Kentucky 40311.

C. Nicholas County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Nicholas County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Nicholas County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County has no business-type activities.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary funds.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Phase I Tobacco Fund - The purpose of this fund is to account for the distribution of subsidy resources from the state for qualifying farmers of tobacco funds. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Mathers Educational Fund – The primary purpose of this fund is to account for the distribution requirements of the Mathers Educational Trust Fund. The primary source of revenue for this fund is the income generated by the principal of the Trust Fund. The Trust Fund requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Knox Hospital Trust Fund – This fund was established to promote the general health and welfare of the people of Nicholas County, especially the employment of a health nurse. The Fiscal Court uses the income generated from the principal of the Trust through the General Fund for this purpose.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Landfill Fund, and Debt Service Fund.

Special Revenue Funds:

The Road Fund, Phase I Tobacco Fund, Mathers Educational Fund, Jail Fund, Local Government Economic Assistance Fund, and Landfill Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The County has one debt service fund included as a non-major fund. Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest.

Permanent Fund:

The County has one permanent fund, the Knox Hospital Trust Fund. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund.

Fiduciary Fund

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments and cannot be used to support the government's own programs. When these assets are held under the terms of a formal trust agreement, pension trust funds, investment trust funds, private-purpose trust funds, and agency funds are used.

The primary government reports the following fiduciary fund:

Mathers Educational Trust Fund – This private-purpose trust fund was established for educational expenses of Nicholas County school age children. The Fiscal Court awards the income generated from the principal of the Trust based upon applications received, less administrative costs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Unit

The financial statements present the following major discretely presented component unit: Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program.

This component unit is reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as “Component Unit” to emphasize this organization’s separateness from the fiscal court’s primary government.

E. Deposits and Investments

The government’s cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). Investments are recorded at cost and changes in fair market value of investments are not recorded in the financial statements.

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government’s capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10 - 60
Buildings	\$ 50,000	10 - 100
Building Improvements	\$ 25,000	10 - 100
Other Equipment	\$ 5,000	2 - 10
Vehicles and Equipment	\$ 5,000	2 - 10
Infrastructure	\$ 25,000	5 - 50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Nicholas County has no organizations considered related organizations of the Nicholas County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Nicholas County has no organizations considered jointly governed organizations of the Nicholas County Fiscal Court.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, Nicholas County has no organizations considered jointly governed organizations of the Nicholas County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits and Investments (Continued)

A. Deposits (Continued)

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposit may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009 all deposits of the primary government and component unit were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk

KRS 66.480 limits the County's investment in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. All investments of the County are reported in the Permanent Fund and Private Purpose Trust Fund and are maintained by third-party trustees bound by the legal restrictions established by the trust.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2009, the County's investments, held in the Permanent Fund and Private Purpose Trust Fund, were insured or registered or the securities were held by the County or by the County's agent in the County's name.

<u>Types of Investments</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Concentration</u>
Equities in Mutual Funds	\$ 800,389	\$ 695,027	0.39
Equities in Common Stocks	154,699	173,856	0.08
Equities in Health Care Corps	25,092	23,203	0.01
Fixed Income in Bond Funds	1,057,578	1,078,657	0.52
Totals	<u>\$ 2,037,758</u>	<u>\$ 1,970,743</u>	<u>1.00</u>

The following chart shows current cash and investments for the governmental and fiduciary activities. Discretely presented component units are not included in this chart.

<u>Cash and Investment Summary</u> <u>As reported in the Statement of Net Assets and Statement of Fiduciary Net Assets</u>	<u>Current Cash And Investments</u>
Governmental activities	\$ 343,453
Fiduciary activities	<u>2,068,543</u>
Total	<u>\$ 2,411,996</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 264,121	\$		\$ 264,121
Construction In Progress	179,297	32,850		212,147
Total Capital Assets Not Being Depreciated	443,418	32,850		476,268
Capital Assets, Being Depreciated:				
Buildings	2,203,933			2,203,933
Other Equipment	841,542	63,000		904,542
Vehicles and Equipment	584,891	25,518	(6,000)	604,409
Infrastructure	2,157,761	118,050		2,275,811
Total Capital Assets Being Depreciated	5,788,127	206,568	(6,000)	5,988,695
Less Accumulated Depreciation For:				
Buildings	(287,464)	(22,675)		(310,139)
Other Equipment	(575,637)	(17,389)		(593,026)
Vehicles and Equipment	(422,684)	(26,176)	1,920	(446,940)
Infrastructure	(466,746)	(165,889)		(632,635)
Total Accumulated Depreciation	(1,752,531)	(232,129)	1,920	(1,982,740)
Total Capital Assets, Being Depreciated, Net	4,035,596	(25,561)	(4,080)	4,005,955
Governmental Activities Capital Assets, Net	\$ 4,479,014	\$ 7,289	\$ (4,080)	\$ 4,482,223

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 11,774
Protection to Persons and Property	16,944
General Health and Sanitation	7,934
Social Services	540
Recreation and Culture	3,559
Roads, Including Depreciation of General Infrastructure Assets	<u>191,378</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 232,129</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt

A. Courthouse Renovation

Nicholas County Fiscal Court entered into a lease agreement for \$291,000 with the Kentucky Association of Counties Leasing Trust Program, for courthouse renovation, on September 24, 1997. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on October 1, 2012. The outstanding principal as of June 30, 2009 was \$80,952. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	\$ 3,724	\$ 23,806
2011	2,438	24,737
2012	1,103	25,704
2013	60	6,705
	<u>\$ 7,325</u>	<u>\$ 80,952</u>

B. Courthouse Renovation - AOC

Nicholas County Fiscal Court entered into a lease agreement for \$44,984 with the Administrative Office of the Courts (AOC), for courthouse renovation, on September 26, 2005. This lease has a 0% interest rate. Payments are withdrawn quarterly from rental receipts due to the Nicholas County Fiscal Court from AOC. The lease is to be paid in full on June 30, 2012. The outstanding principal as of June 30, 2009 was \$20,886. Future lease principal requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>
2010	\$ 6,426
2011	6,426
2012	6,427
2013	1,607
	<u>\$ 20,886</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

C. Blacktop Roller

Nicholas County Fiscal Court entered into a lease agreement for \$19,500 with the Kentucky Association of Counties Leasing Trust Program, for a blacktop roller, on January 16, 2007. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on July 20, 2009. The outstanding principal as of June 30, 2009 was \$7,500. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	\$ 34	\$ 7,500
	<u>\$ 34</u>	<u>\$ 7,500</u>

D. Mack Truck

Nicholas County Fiscal Court entered into a lease agreement for \$102,859 with the Kentucky Association of Counties Leasing Trust Program, for a Mack dump truck, on February 17, 2009. Interest payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. Principal payments begin on January 20, 2011. The lease is to be paid in full on January 20, 2013. The lease balance as of June 30, 2009 was \$102,859.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	\$ 3,990	\$
2011	3,862	35,000
2012	2,471	35,000
2013	<u>944</u>	<u>32,859</u>
	<u>\$ 11,267</u>	<u>\$ 102,859</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 144,674	\$ 102,859	\$ 35,336	\$ 212,197	\$ 37,732
Governmental Activities Long-term Liabilities	<u>\$ 144,674</u>	<u>\$ 102,859</u>	<u>\$ 35,336</u>	<u>\$ 212,197</u>	<u>\$ 37,732</u>

Note 5. Short-term Liabilities

A. Mack Dump Truck

Nicholas County Fiscal Court entered into a lease agreement for \$98,525 with the Kentucky Association of Counties Leasing Trust Program, for a 2007 Mack dump truck, on July 31, 2007. The agreement requires one payment due by September 20, 2008, with an interest rate of 4.91 percent. The lease was paid in full on August 25, 2008.

B. Changes In Short-term Liabilities

Short-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Primary Government:				
<u>Governmental Activities:</u>				
Financing Obligations	\$ 98,525	\$	\$ 98,525	\$
Governmental Activities Short-term Liabilities	<u>\$ 98,525</u>	<u>\$ 0</u>	<u>\$ 98,525</u>	<u>\$ 0</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

The county's contribution for FY 2007 was \$113,893 FY 2008 was \$136,142, and FY 2009 was \$122,625.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Nicholas County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2009, Nicholas County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Landfill Closure and Postclosure Costs

The Nicholas County Landfill was closed in September 1993. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated postclosure care costs total \$72,500 as of June 30, 2009, or \$8,000 per year. During the fiscal year ended June 30, 2009, the County made no expenditures on postclosure costs. The County Judge/Executive and two magistrates are performing the process of groundwater monitoring in-house. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be out of the General Fund to the extent that funds are available with any excess costs to be funded using long-term borrowings.

Note 10. Beginning Net Assets Restated

Net assets of the governmental activities as previously reported have been restated and increased by \$4,320 for General Fund voided checks, \$13 for Road Fund voided checks, and \$71 for Landfill Fund voided checks. The net effect of these adjustments restates the beginning net asset for governmental activities to \$5,593,447.

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NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 590,000	\$ 597,078	\$ 631,617	\$ 34,539
Excess Fees	25,000	25,000	13,492	(11,508)
Licenses and Permits	6,500	6,500	7,238	738
Intergovernmental Revenue	109,743	193,248	124,071	(69,177)
Charges for Services	31,000	43,130	63,949	20,819
Miscellaneous	17,416	39,749	41,338	1,589
Interest	36,000	36,000	18,829	(17,171)
Total Revenues	815,659	940,705	900,534	(40,171)
EXPENDITURES				
General Government	355,770	426,903	426,479	424
Protection to Persons and Property	130,585	155,855	147,620	8,235
General Health and Sanitation	17,092	17,092	17,083	9
Social Services	105,018	117,390	45,490	71,900
Recreation and Culture	57,500	57,500	57,500	
Debt Service	70,000	70,000	26,696	43,304
Administration	237,922	254,193	191,617	62,576
Total Expenditures	973,887	1,098,933	912,485	186,448
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(158,228)	(158,228)	(11,951)	146,277
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	40,000	40,000		(40,000)
Transfers From Other Funds	105,000	105,000	112,486	7,486
Transfers To Other Funds	(196,772)	(196,772)	(102,717)	94,055
Total Other Financing Sources (Uses)	(51,772)	(51,772)	9,769	61,541
Net Changes in Fund Balance	(210,000)	(210,000)	(2,182)	207,818
Fund Balance - Beginning	210,000	210,000	441,853	231,853
Fund Balance - Ending	\$ 0	\$ 0	\$ 439,671	\$ 439,671

**Reconciliation of the Budgetary Comparison Schedule to
Statement of Revenues, Expenditures, and Changes in Fund Balance**

	Revenues	Expenditures
Total - Budgetary Comparison Schedule	\$ 900,534	\$ 912,485
Administrative Office of the Courts (AOC) deducts the County's debt service payment for courthouse renovations from AOC's courthouse rental payments to the County.	6,426	6,426
Total - Statement of Revenues, Expenditures, and Changes In Fund Balances	\$ 906,960	\$ 918,911

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 777,686	\$ 1,048,791	\$ 953,630	\$ (95,161)
Charges for Services	2,000	2,000	3,111	1,111
Miscellaneous	100	89,758	90,230	472
Interest	10,000	10,000	9,057	(943)
Total Revenues	789,786	1,150,549	1,056,028	(94,521)
EXPENDITURES				
General Government	18,000	18,000	18,000	
Roads	521,874	715,679	718,097	(2,418)
Debt Service	30,000	119,658	107,215	12,443
Capital Projects	7,500	7,500		7,500
Administration	194,912	272,212	164,221	107,991
Total Expenditures	772,286	1,133,049	1,007,533	125,516
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	17,500	17,500	48,495	30,995
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			7,717	7,717
Transfers To Other Funds	(105,000)	(105,000)	(105,000)	
Total Other Financing Sources (Uses)	(105,000)	(105,000)	(97,283)	7,717
Net Changes in Fund Balance	(87,500)	(87,500)	(48,788)	38,712
Fund Balance - Beginning	87,500	87,500	84,486	(3,014)
Fund Balance - Ending	\$ 0	\$ 0	\$ 35,698	\$ 35,698

**Reconciliation of the Budgetary Comparison Schedule to
Statement of Revenues, Expenditures, and Changes in Fund Balance**

	Expenditures	Other Financing Sources
Total - Budgetary Comparison Schedule	\$ 1,007,533	\$ (97,283)
The County purchased road equipment through Kentucky Association of Counties Leasing Trust Program (Note 4.D.)	102,859	102,859
Total - Statement of Revenues, Expenditures, and Changes In Fund Balances	\$ 1,110,392	\$ 5,576

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

PHASE I TOBACCO FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 375,086	\$ 658,400	\$ 491,480	\$ (166,920)
Interest	40,300	40,300	11,642	(28,658)
Total Revenues	415,386	698,700	503,122	(195,578)
EXPENDITURES				
Administration	459,856	743,170	324,871	418,299
Total Expenditures	459,856	743,170	324,871	418,299
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(44,470)	(44,470)	178,251	222,721
Net Changes in Fund Balance	(44,470)	(44,470)	178,251	222,721
Fund Balance - Beginning	44,470	44,470	126,437	81,967
Fund Balance - Ending	\$ 0	\$ 0	\$ 304,688	\$ 304,688

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

MATHERS EDUCATIONAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 96,000	\$ 96,000	\$ 97,862	\$ 1,862
Total Revenues	96,000	96,000	97,862	1,862
EXPENDITURES				
Social Services	149,422	149,422	98,126	51,296
Administration	131,500	131,500	1,914	129,586
Total Expenditures	280,922	280,922	100,040	180,882
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(184,922)	(184,922)	(2,178)	182,744
Net Changes in Fund Balances	(184,922)	(184,922)	(2,178)	182,744
Fund Balances - Beginning	184,922	184,922	184,902	(20)
Fund Balances - Ending	\$ 0	\$ 0	\$ 182,724	\$ 182,724

NICHOLAS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**NICHOLAS COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

NICHOLAS COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Jail Fund	Local Government Economic Assistance Fund	Landfill Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 6,579	\$ 916	\$ 3,875	\$ 9,742	\$ 21,112
Total Assets	<u>6,579</u>	<u>916</u>	<u>3,875</u>	<u>9,742</u>	<u>21,112</u>
FUND BALANCES					
Unreserved:					
Special Revenue Fund	6,579	916	3,875		11,370
Debt Service Fund				9,742	9,742
Total Fund Balances	<u>\$ 6,579</u>	<u>\$ 916</u>	<u>\$ 3,875</u>	<u>\$ 9,742</u>	<u>\$ 21,112</u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Jail Fund	Local Government Economic Assistance Fund	Landfill Fund	Debt Service Fund
REVENUES				
Intergovernmental	\$ 70,219	\$	\$	\$
Charges for Services	17,452		38,701	
Miscellaneous	1,592		5,811	
Interest	394	32	183	
Total Revenues	<u>89,657</u>	<u>32</u>	<u>44,695</u>	
EXPENDITURES				
Protection to Persons and Property	139,660			
General Health and Sanitation			71,478	
Administration	10,327		8,233	
Total Expenditures	<u>149,987</u>		<u>79,711</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(60,330)</u>	<u>32</u>	<u>(35,016)</u>	
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	62,000		33,000	
Total Other Financing Sources (Uses)	<u>62,000</u>		<u>33,000</u>	
Net Change in Fund Balances	1,670	32	(2,016)	
Fund Balances - Beginning (Restated)	4,909	884	5,891	9,742
Fund Balances - Ending	<u>\$ 6,579</u>	<u>\$ 916</u>	<u>\$ 3,875</u>	<u>\$ 9,742</u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

Total Non-Major Governmental Funds	
\$	70,219
	56,153
	7,403
	609
	<u>134,384</u>
	139,660
	71,478
	18,560
	<u>229,698</u>
	<u>(95,314)</u>
	<u>95,000</u>
	<u>95,000</u>
	(314)
	21,426
\$	<u>21,112</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 28, 2010. Nicholas County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Our report was modified to include a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nicholas County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of Nicholas County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Nicholas County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-03 and 2009-04 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are not material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Nicholas County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01 and 2009-02.

The Nicholas County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

October 28, 2010

**NICHOLAS COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

NICHOLAS COUNTY COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2009

STATE LAWS AND REGULATIONS

2009-01 The County's Annual Financial Statement Does Not Meet Statutory Requirements

The county's annual financial statement does not meet statutory requirements. The County used their fourth quarter financial statement as their financial statement and attached a summary of expenditures. KRS 424.220 "requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year.

The financial statement is required to show the:

- Total amount collected and received from each individual source
- Total amount of funds disbursed to each individual payee and the purpose for which expended. The amount of salaries paid to all non-elected county employees can be shown as lump sum expenditures by category.

The financial statement must also have attached:

- Certificate from the cashier or other proper officer from the banks in which the funds are or have been deposited during the past year, showing the balance, if any, of funds to the credit of the officer making the statement.
- Factual list of individual salaries is required to be prepared and available for public scrutiny and furnished by mail to the newspaper which may publish the list as a news item."

We recommend that the county prepare an accurate financial statement in the future.

County Judge/Executive Larry Tincher's Response: Was not aware that end of the year quarterly was not sufficient but will correct the problem.

2009-02 The County Did Not Prepare An Accurate And Complete Fourth Quarter Financial Statement

During the course of our audit, we noted numerous problems related to the presentation and disclosure of the fourth quarter financial statement as noted below:

- \$23,066 of transfers in to the general fund was included erroneously on the quarterly report. These consisted of EMA receipts.
- Encumbrance totals were not included on the summary section of the fourth quarter financial statement.
- The fourth quarter original budget expenditure totals for the General Fund and Phase I Fund do not agree to the original budget. The fourth quarter budget amendments for expenditures on the Phase I Fund did not agree to the actual budget amendments. The fourth quarter budget amendment for receipts for the Road Fund and Phase I Fund did not agree to the total actual budget amendments.
- Leases should be broken out on the quarterly to show which portion was for principal and which was for interest instead of being combined in one line item. There are separate account codes for this.

NICHOLAS COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2009
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2009-02 The County Did Not Prepare An Accurate And Complete Fourth Quarter Financial Statement (Continued)

- The EMA bank account was included on the fourth quarter report. However, this is just a bank account used for automatic deposits for FEMA and EMA receipts. The receipts are transferred into the General and Road Fund based on the purpose of the funds received. These amounts should be posted in receipts ledgers for the appropriate fund when automatic deposits are received, not posted as transfers in but as actual intergovernmental revenue.

We recommend the treasurer accurately report receipts and disbursements and fund information on the quarterly financial reports. Additionally, the judge should review the report to determine if all information is accurate and agrees to manual records.

County Judge/Executive Larry Tincher's Response: We will do our best to follow all recommendations.

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES:

2009-03 Nicholas County Lacked Adequate Segregation Of Duties Over Cash And Receipt Functions

Segregation of duties over the accounting functions of revenue collection, and reconciliation of bank records to source documents or implementation of compensating controls when limited by the number of staff, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Proper segregation of duties protects employees in the normal course of performing their daily responsibilities. A lack of segregation of duties exists over cash and receipt functions. One employee collects receipts, prepares deposits, posts to ledgers, prepares monthly reports, reconciles bank accounts, and makes transfers between the bank accounts. The Finance Officer maintains a separate disbursements ledger and reconciles it to the treasurer's records.

A limited number of staff and a limited budget places restrictions on the number of employees the county can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Because one employee handled the above-mentioned accounting functions, the following occurred:

- \$23,066 of transfers in to the general fund was included erroneously on the quarterly report. These consisted of EMA receipts.
- Encumbrance totals were not included on the summary section of the fourth quarter financial statement.
- The fourth quarter original budget expenditure totals for the General Fund and Phase I Fund do not agree to the original budget. The fourth quarter budget amendments for expenditures on the Phase I Fund did not agree to the actual budget amendments. The fourth quarter budget amendment for receipts for the Road Fund and Phase I Fund did not agree to the total actual budget amendments.
- Leases should be broken out on the quarterly to show which portion was for principal and which was for interest instead of being combined in one line item. There are separate account codes for this.

NICHOLAS COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2009
(Continued)

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES: (Continued)

2009-03 Nicholas County Lacked Adequate Segregation Of Duties Over Cash And Receipt Functions
 (Continued)

- The EMA bank account was included on the fourth quarter report. However, this is just a bank account used for automatic deposits for FEMA and EMA receipts. The receipts are transferred into the General and Road Fund based on the purpose of the funds received. These amounts should be posted in receipts ledgers for the appropriate fund when automatic deposits are received, not posted as a transfer in but as actual intergovernmental revenue.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the county should separate the duties involving the collection of cash, deposit of cash, and reconciliation of cash. If, due to a limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Judge/Executive could also provide this oversight. Implementing the review of bank reconciliations by an independent individual and a listing of all receipts maintained by an independent individual will further improve the internal control procedures and provide documentation to allow review procedures to be put in place.

County Judge/Executive Larry Tincher's Response: This has already been taken care of.

2009-04 Nicholas County Lacked Adequate Segregation Of Duties Over The Payroll Function

A lack of adequate segregation of duties exists over the reporting function. The payroll clerk processes the payroll, prepares the payroll checks including employee benefits checks, prepares all reports to the appropriate agencies, and distributes checks to employees. Payroll checks are signed by the Judge/Executive and the treasurer. However, the checks are not agreed to the payroll ledgers by the check signers.

Segregation of duties over payroll functions of cash transfers, preparation of checks, disbursements posting and reconciliation of bank records to source documents, or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Because one employee handled the above-mentioned payroll functions and oversight was not provided, the following occurred:

- An annual compensation schedule was not approved by the fiscal court.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, we recommend the Judge/Executive and treasurer review the payroll ledgers when signing the payroll checks.

County Judge/Executive Larry Tincher's Response: We will do our best to comply.

